ROSE ON COTTON – COTTON MARKET SKID COMES TO AN END; USDA REMAINS BULLISH ON CONSUMPTION

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The ICE May cotton contract's weekly losing streak ended at six with a 445-point gain to finish at 82.40 as the May – July switch weakened slightly to (134). The Dec contract finished notably higher on the week at 81.78. It is interesting to note that the Dec contract has larger open interest that either May or July, which is unusual at this point of the season, but it certainly is telling of where the market's focus lies. Last weekend, our proprietary model (timely results provided in our complete weekly report) predicted a finish that would be near unchanged to lower Vs the previous Friday's settlement, which proved to be incorrect. However, we did not recommend trading this bias due to the USDA's April WASDE relief on Friday and because we expected an improvement in US export data, which did occur.

Futures moved higher on tightening US and world aggregate balance sheets, improved US export data, continued weather concerns ahead of planting, and continuing mill fixation of on-call commitments.

In the April WASDE report, the USDA projected 2020/21 domestic carryout off around 300K bales Vs Mar at 3.9M bales, which was smaller than generally expected. The adjustment came via a 250K bale enhancement to the official export target to 15.75M bales. The latest classing figures suggest that US production will ultimately be pegged at less than 14.6M bales. So, a final carryout of 3.75M may be factored into the market.

Aggregate world carryout was projected 1.13M bales lower Vs Mar at approximately 93.46M bales on a modest lowering of the projection of production, a modest enhancement to the consumption forecast and lower estimated beginning stocks. We continue to disagree with the USDA on consumption. Inflation, the likelihood of increasing interest rates, continued pandemic shutdowns, still higher energy prices, and what we (and many others) believe is irresponsible governmental fiscal behavior keep us concerned. Too, as cotton's market share continues to lose ground to synthetic fibers, population growth remains a primary factor in year-over-year increases in aggregate worldwide consumption – and COVID has slowed the growth rate of world inhabitants.

Domestically, most areas of The Belt east of New Mexico are expected to see some rainfall over the coming week; however, where it is most needed (West Texas) rainfall totals are expected to be modest, at best, while the Mid-south (especially the southern Delta) are expected to see significant to heavy rainfall and (potentially) severe thunderstorms.

Net export sales and shipments were higher Vs the previous assay period at approximately 277K and 393K RBs, respectively. New crop sales were around 49K RBs; running total is now 1.55M RBs. The US is 103% committed and 69% shipped Vs the USDA's 15.5M bale export projection.

Both sales and shipments were ahead of the average weekly pace required to realize the USDA's target. Sales and shipments are ahead of the long-term average pace for this point in the season. Cancellations were negligible.

International textile retailers continue to reject cotton and value-added products associated with Xinjiang, China, even as some corporations are concerned about waning sales within China. For its part, we hear that the country's central government is planning to notably enhance it machine harvesting capability this season across the region in effort to combat claims of the use of slave labor being used for hand harvesting.

For the week ending April 6, the trade decreased its futures only net short position against all active contracts to around 13.36M bales while large speculators increased their aggregate net long position to almost 6.25M bales. The spec position remains stacked in a bullish manner, which could lead to significant liquidation.

For an in-depth analysis of CFCT data see our weekly CFTC analysis and commentary.

For this week, the standard weekly technical analysis for and money flow into the May contract have improved to neutral, with the market no longer in oversold territory. The weekly US export report, weather forecasts and conditions, and index fund rolling all hold potential to move market next week.

We continue to encourage producers to be 40-60% priced or hedged against a Dec in the low to mid 80s prior to planting and to increase those percentages if we have not seen a rally to the mid- or upper-80s once planted. Volatility has become the central feature to daily trading, and this volatility is being reflected in substantial premiums for option positions and widening basis on forward contracts.

Have a great weekend!

Report Courtesy: Rose Commodity Group

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